

COMPANY RESULTS

Sentral REIT (SENTRAL MK)

2Q21: Results Within Expectations

Results came in within our estimates, with 1H21 core earnings accounting for 48% of our full-year forecast. Earnings decreased slightly qoq due to higher rental rebates given to retailers and lower occupancy at Platinum Sentral. Nevertheless, we believe SENTRAL will continue to report decent results moving forward, given that its tenants are mostly well-established MNCs. The stock offers an attractive dividend yield of at least 8% for 2021-23. Maintain BUY and target price of RM1.00.

2021 RESULTS

Year to 31 Dec	2Q21 (RMm)	1Q21 (RMm)	qoq % chg	yoy % chg	1H21 (RMm)	yoy % chg
Gross revenue	38.2	41.0	(6.9)	(4.8)	79.2	(3.2)
Operating expenses	(8.6)	(9.6)	(10.7)	(6.1)	(18.2)	(2.0)
Net property income	29.6	31.4	(5.8)	(4.4)	61.0	(3.5)
Finance cost	(7.8)	(7.7)	0.8	(13.0)	(15.4)	(16.4)
Core Net Profit	18.9	20.7	(8.7)	(1.0)	39.6	1.8
EPU (sen)	1.8	1.9	(8.7)	(1.0)	3.7	1.8
DPU (sen)	3.4	0.0	n.m.	0.0	3.4	0.0
Margins	(%)	(%)	ppt chg	ppt chg	(%)	ppt chg
NPI	77.5	76.6	1.0	0.3	77.0	(0.3)
PAT	49.5	50.4	(1.0)	1.9	50.0	2.5

Source: Sentral REIT, UOB Kay Hian

RESULTS

- **In line with expectations.** Sentral REIT (SENTRAL) reported 2Q21 revenue of RM38m (-6.9% qoq, -4.8% yoy) and core net profit of RM18.9m (-8.7% qoq, -1.0% yoy). 1H21 core net profit of RM39.6m (+1.8% yoy) accounts for 48% of our and 49% of consensus' full-year forecasts. Core net profit excludes a disposal gain of RM3.8m from the disposal of QB5. Revenue and core profit declined on a qoq basis due to slightly lower occupancy rate at Platinum Sentral coupled with higher rental rebates given to retailers.
- **Declared 3.43 sen** dividend for 1H21. This translates to a payout ratio of 93%.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	162	166	167	170	172
EBITDA	108	113	113	115	117
Operating profit	108	113	113	115	117
Net profit (rep./act.)	29	73	82	85	87
Net profit (adj.)	72	81	82	85	87
EPU (sen)	6.7	7.6	7.7	7.9	8.1
DPU (sen)	6.8	7.1	7.3	7.5	7.7
PE (x)	13.4	12.0	11.8	11.5	11.1
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	7.5	7.8	8.0	8.3	8.5
Net margin (%)	18.0	43.8	49.0	49.9	50.6
Net debt/(cash) to equity (%)	58.4	57.4	55.0	53.6	52.9
Interest cover (x)	3.0	3.5	3.6	3.8	3.9
ROE (%)	2.2	5.5	6.2	6.4	6.5
Consensus DPU (sen)	n.a.	n.a.	7.0	7.1	7.3
UOBKH/Consensus (x)	-	-	1.04	1.06	1.06

Source: Sentral REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.91
Target Price	RM1.00
Upside	+10.4%

COMPANY DESCRIPTION

Sentral REIT invests in office and retail buildings, business/technology parks, data processing centres and car park facilities primarily in Malaysia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SENTRAL MK
Shares issued (m):	1,071.8
Market cap (RMm):	970.0
Market cap (US\$m):	230.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

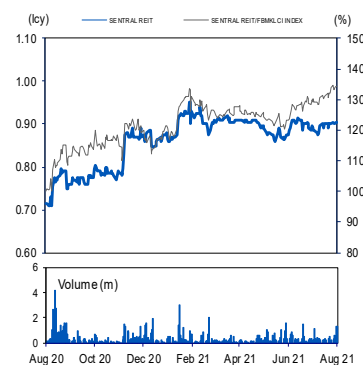
52-week high/low			RM0.950/RM0.710	
1mth	3mth	6mth	1yr	YTD
2.3	1.7	(2.7)	26.6	3.4

Major Shareholders

	%
Malaysian Resources Corp	27.8
Employees Provident Fund	12.1
CapitaLand Ltd	10.9

FY21 NAV/Share (RM)	1.24
FY21 Net Debt/Share (RM)	0.68

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Business as usual.** 1H21 core earnings remained steady (+1.8% yoy) with corresponding NPI margin of 77% (1H20: 77.3%). We expect earnings to remain resilient as SENTRAL's tenants are mostly well-established MNCs and local businesses that are able to ride out the current situation.
- **Stable occupancy rate.** On a portfolio basis, occupancy rate improved slightly to 91.7% (1Q21: 89%, 2Q20: 90.4%), well above the average of 78% in 2020 for office buildings in Kuala Lumpur. Total leases due for renewals for 2021 and 2022 account for 22% and 16% of total NLA respectively, with the majority of the leases due in 2021 taking place in 2H21. SENTRAL successfully renewed 73% of leases due in 1H21. We do not see any major risk as negotiations are already underway. SENTRAL's weighted average lease expiry (WALE) is 4.18 years.
- **Gearing at 38%.** SENTRAL's current gearing ratio remains healthy (on par with peers), which allows it to tap into debt and equity markets for future acquisitions. The 60% gearing limit by the Securities Commissions (until Dec 22) will give SENTRAL debt headroom of about RM490m to fund future acquisitions (RM268m debt headroom to reach 50% gearing).

EARNINGS REVISION/RISK

- No change to our earnings forecasts.

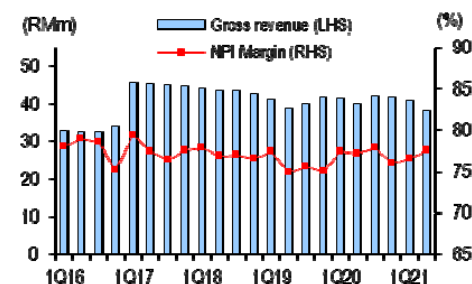
VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM1.00.** Our target price is based on a dividend discount model (required rate of return: 8.5%, terminal growth: 1.3%) and represents an implied dividend yield of 7.3% for 2021.
- SENTRAL continues to be appealing for its attractive and sustainable high dividend yields of 8-9% for 2021-23, backed by its property portfolio's stable occupancy.

SHARE PRICE CATALYST

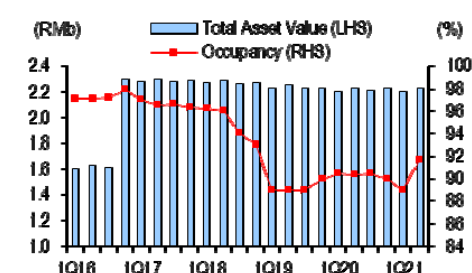
- High dividend yield to appeal more in the current low interest rate environment.
- Inorganic growth arising from acquisitions.

REVENUE AND NPI MARGIN



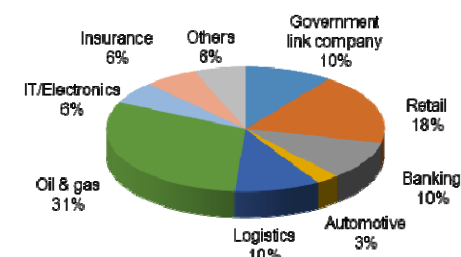
Source: SENTRAL, UOB Kay Hian

TOTAL ASSET VALUE AND OCCUPANCY RATE



Source: SENTRAL, UOB Kay Hian

TENANCY MIX (BY NLA)



Source: SENTRAL, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	166	167	170	172
EBITDA	113	113	115	117
Deprec. & amort.	0	0	0	0
EBIT	113	113	115	117
Net interest income/(expense)	(32)	(31)	(30)	(30)
Pre-tax profit	74	82	85	87
Tax	(1)	0	0	0
Net profit	73	82	85	87
Net profit (adj.)	81	82	85	87

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	2,097	2,099	2,101	2,103
Other LT assets	1	1	1	1
Cash/ST investment	85	120	142	151
Other current assets	45	5	5	5
Total assets	2,228	2,225	2,249	2,260
ST debt	218	223	228	231
Other current liabilities	30	19	33	37
LT debt	627	627	627	627
Other LT liabilities	29	29	29	29
Shareholders' equity	1,324	1,328	1,332	1,336
Total liabilities & equity	2,228	2,225	2,249	2,260

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	120	115	119	121
Pre-tax profit	74	82	85	87
Deprec. & amort.	0	0	0	0
Other operating cashflows	46	33	34	34
Investing	1	3	(2)	(2)
Capex (growth)	(1)	(2)	(2)	(2)
Proceeds from sale of assets	0	5	0	0
Others	2	0	0	0
Financing	(99)	(83)	(95)	(110)
Distribution to unitholders	(73)	(78)	(80)	(83)
Issue of shares	0	0	0	0
Proceeds from borrowings	341	225	175	120
Loan repayment	(335)	(220)	(170)	(117)
Others/interest paid	(32)	(10)	(20)	(30)
Net cash inflow (outflow)	22	35	22	10
Beginning cash & cash equivalent	63	85	120	142
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	85	120	142	151

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	68.5	67.6	67.6	67.9
Pre-tax margin	44.5	49.0	49.9	50.6
Net margin	43.8	49.0	49.9	50.6
ROA	3.3	3.7	3.8	3.9
ROE	5.5	6.2	6.4	6.5
Growth				
Turnover	2.2	1.0	1.3	1.2
EBITDA	4.6	(0.3)	1.3	1.7
Pre-tax profit	108.7	11.2	3.2	2.7
Net profit	149.2	13.0	3.2	2.7
Net profit (adj.)	12.3	1.3	3.2	2.7
EPU	12.3	1.3	3.2	2.7
Leverage				
Debt to total capital	39.0	39.0	39.1	39.1
Debt to equity	63.8	64.0	64.2	64.2
Net debt/(cash) to equity	57.4	55.0	53.6	52.9
Interest cover (x)	3.5	3.6	3.8	3.9

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